

Water Dept. rate hike needed to avoid debt-related squeeze

Bondholders set required level of revenue to payments

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The troubled Cleveland Water Department is likely to violate its loan agreements on more than \$1 billion in debt if the City Council does not approve a rate increase this year, city officials say.

Mayor Frank Jackson is expected to introduce legislation to City Council this spring to increase rates

for the department's 1.5 million customers. He declined to provide details on how much the proposed rate increases will be.

The administration angered some council members last month when it failed to tell them that the 2011 budget included \$15 million from an anticipated rate hike. Council subsequently learned that the city wants a series of rate increases that would take effect July 1.

A rate increase could prove to be a tough sell. Suburban officials have been complaining for months about the Water Department's billing and customer service problems. Westlake Mayor Dennis Clough has threatened to pull his city from the system altogether.

So while a request for a rate increase might be a public relations nightmare for Jackson and his administration, not raising rates could

prove even more problematic.

Water Department revenues the past two years have been below what was collected in 2008 because of decreased water use and the department's problems billing customers correctly.

The department directly bills about 444,000 accounts in 70 Northeast Ohio communities.

The city is required by bondholders to collect net revenue beyond what is needed to make its annual debt payments.

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ber is because they can't rely on reports being generated by the division's new \$31 million billing system.

The department's inability to adapt and use the new billing system also explains why it has not yet released its 2009 annual report, which is supposed to contain detailed information about revenues, expenses and debt.

That billing system, Jackson said, has exposed the department's institutional weaknesses and outdated culture. The department has been the target of widespread criticism because of its inability to send customers accurate bills or, in some cases, any bill at all.

Those problems have been exacerbated by poor customer service. Customers have frequently griped about having their calls placed on hold for long periods and not getting their complaints addressed once they reached someone.

High-ranking administration officials, including Public Utilities Director Barry Withers and Jackson's chief operating officer, Darnell Brown, have been telling the council since last year of marked improvements in the division's performance.

But that didn't stop Jackson in late January from agreeing with Councilman Kevin Kelley to hire a "turnaround" firm that will oversee an overhaul of the department's operations and management. Jackson said Thursday that he expects the firm, which will be paid as much as \$2.5 million, to be hired by late next month.

"The inability of the division of water to get bills out is a detriment to us all," Jackson said. "That's why we have a turnaround firm."

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Rate increase will be a tough sell

That amount fell below the required threshold last year, a situation that is not likely to change this year unless a rate increase is approved, said city Finance Director Sharon Dumas.

Two successive years of failing to maintain that debt-to-revenue ratio will require the city to notify investors, rating agencies and the Internal Revenue Service about how it intends to fix the problem. That in turn could prevent the Water Department from issuing new debt and could increase borrowing costs for other city departments and enterprises, Dumas said.

In an interview last week, Jackson attributed the financial problems to the council's reducing a proposed rate increase from five years to four in 2006 and slashing the amount of the increase in half.

"If that hadn't happened, we would have a better financial situation than we [have] now," Jackson said.

Investors and rating agencies have made inquiries in recent months about whether the city will seek a rate increase and when the Water Department will release its 2009 annual report, Dumas said.

Critics have pointed to the department's burgeoning number of uncollected bills. A memo provided to the council in September showed that the division had \$77 million in unpaid bills. That is double the amount owed in 2006.

Jackson and Dumas said they don't believe the amount is that high, but acknowledged they don't know what the actual num-